

CITY OF POLK CITY, IOWA
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
AND FINDINGS

JUNE 30, 2012

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditors' Report	2-3
Management's Discussion and Analysis	4-9
Basic Financial Statements	
	<u>Exhibit</u>
Government-wide Financial Statement	
Statement of Activities and Net Assets – Cash Basis	A 10-11
Governmental Fund Financial Statement	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 12
Proprietary Fund Financial Statement	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 13
Notes to Financial Statements	14-20
Required Supplementary Information	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	21-22
Notes to Required Supplementary Information – Budgetary Reporting	23
Other Supplementary Information	
	<u>Schedule</u>
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	1 24
Report on Internal Control over Financial Reporting and on Compliance And Other Matters on an Audit Performed in Accordance with <i>Government Auditing Standards</i>	25-26
Schedule of Findings	27-28

City of Polk City, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Heuertz	Mayor	January, 2013
Dan Lane	Mayor Pro Tem	January, 2013
Robert Mordini	Council Member	January, 2013
David Dvorak	Council Member	January, 2015
Ronald Anderson	Council Member	January, 2015
Jeff Walters	Council Member	January, 2015
Gary Mahannah	City Administrator	Indefinite
Colin Adams	Finance Officer /Treasurer	Indefinite
Sharon Nickles	City Clerk	Indefinite
Brick Gentry, et al, P.C.	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JAMES R. ZIRCHER, CPA
NEAL R. SMITH, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1108
JOHNSTON, IOWA 50131-6499
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Polk City

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund, of the City of Polk City, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of the City of Polk City as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also included our report on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2011 (none of which is presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

October 18, 2012

Pollard and Company P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Polk City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased by 23.62%, or \$863,896 from fiscal 2011 to fiscal 2012. Property and Tax Incremental Financing Tax receipts increased by \$60,636.
- Disbursements increased by 11.04%, or \$442,339, in fiscal 2012 from fiscal 2011. Public safety disbursements increased \$377,564 and capital projects disbursements increased by \$105,541.
- The City's total cash basis net assets decreased 3.73%, or \$115,387, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased \$260,592; the assets of the business type activities decreased by \$375,979.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows: Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$2,239,661 to \$2,076,934. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ended June 30th	
	2012	2011
Receipts		
Program Receipts		
Charges for Service	\$373,447	\$403,762
Operating Grants, Contributions & Restricted Income	\$379,422	\$301,889
General Receipts		
Property Taxes	\$865,408	\$815,217
Tax Incremental Financing	\$211,612	\$201,167
Local Option Sales Tax	\$2,496,426	\$1,852,242
Unrestricted Investment Earnings	\$115,074	\$35,505
Miscellaneous	\$80,546	\$46,495
Total Receipts	<u>\$4,521,935</u>	<u>\$3,656,277</u>
Disbursements		
Public Safety	\$1,209,217	\$831,653
Public Works	\$388,778	\$483,372
Health & Social Services	\$2,569	\$3,210
Culture & Recreation	\$363,820	\$423,770
Community & Economic Development	\$329,877	\$146,792
General Government	\$553,114	\$621,780
Capital Projects	\$1,863,968	\$1,758,427
Total Disbursements	<u>\$4,711,343</u>	<u>\$4,269,004</u>
Increase /Decrease in cash basis net assets	\$189,408	-\$612,727
Transfers (net)	\$450,000	\$450,000
Cash Basis Net Assets - Beginning of Year	\$2,076,934	\$2,239,661
Cash Basis Net Assets - End of Year	\$2,337,526	\$2,076,934

Receipts By Source		Disbursements by Function	
Charges for Service	7.51%	Public Safety	25.64%
Operating Grants, Contributions & Restricted Income	7.73%	Public Works	8.26%
Property Taxes	17.41%	Health & Social Services	0.05%
Tax Incremental Financing	4.26%	Culture & Recreation	7.73%
Local Option Sales Tax	50.23%	Community & Economic Development	7.00%
Unrestricted Investment Earnings	2.19%	General Government	11.74%
Miscellaneous	1.62%	Capital Projects	39.58%
Transfers	9.05%		

The City's total receipts for governmental activities increased by 23.62% or \$863,896. The total cost of all programs and services increased by \$442,339 or 11.04% which included the continuation of a capital projects program. The increase in receipts was primarily the result of an increase in Local Option Sales Tax received as compared to 2011.

The cost of all governmental activities this year was \$4,711,343 compared to \$4,269,004 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$3,858,142, because some of the cost was paid by those directly benefited from the programs (\$853,201). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2012 from \$705,651 to \$853,201. The City paid for the remaining "public benefit" portion of governmental activities with \$3,858,142 in property taxes (some of which could only be used for certain programs) local option sales tax and with other receipts, such as interest and miscellaneous income.

Changes in Cash Basis Net Assets of Business Type Activities

		Year Ended 30th June	
		2012	2011
Receipts			
Program Receipts			
Charges for service			
Water		\$477,556	\$351,567
Sewer		\$419,738	\$358,491
General Receipts			
Unrestricted Interest on Investments		\$9,329	\$17,594
Total Receipts		\$906,623	\$727,652
Disbursements			
Water		\$397,507	\$323,198
Sewer		\$184,723	\$348,145
Transfers		\$450,000	\$450,000
WRA Debt & Capital Improvements		\$250,372	\$128,552
Total Disbursements		\$1,282,602	\$1,249,895
Net Change in Cash Balance		-\$375,979	-\$522,243
Cash Basis Net Assets Beginning Year		\$1,015,581	\$1,537,824
Cash Basis Net Assets End of Year		\$639,602	\$1,015,581

Total business type activities receipts for the fiscal year were \$906,623 compared to \$727,652 last year. This increase was due to increased rates and increases usage by citizens. Total disbursements for the year increased by 2.62% to a total of \$1,282,602. This increase was due to there being less infrastructure repairs which partially offset the increase in WRA loan payments.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Polk City completed the year, its governmental funds reported a combined fund balance of \$2,337,526 an increase of \$260,592. Of the increase, all of it is attributable to a increase in receipts from Local Option Sales Tax.

- The General Fund cash balance increased by \$62,665 from the prior year total of \$1,395,635. This increase is attributable again, to Local Option Sales Tax receipts.
- The Capital Projects Fund was established in year ended June 2004 to isolate from the General Fund items of a capital nature. At the end of the year the balance of this fund was \$121,471.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$81,925 to \$188,809. This increase is attributable to the cost controls in place to ensure efficient operation of the water plant and increased use of water.
- The Sewer Fund cash balance decreased by \$457,904 to \$450,793, this balance decrease is attributable to continuing expenditure of a capital nature.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The first amendment was approved in November, 2011 & the second in March 2012: both amendments resulted in an increase in both disbursements and receipts. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2012 the City had no debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Polk City's elected and appointed officials and citizens will consider many factors when setting the fiscal year 2013 budget, tax rates, and fees that will be charged for various City activities. A major consideration will be the planning and timing of necessary and mandated improvements and upgrades to the City's water and sewer treatment plants.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Colin Adams, Finance Director, City of Polk City, 112 3rd Street, Polk City, Iowa. (cadams@polkcity.org)

City of Polk City, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2012

Functions/Programs	Disbursements	Program Receipts	
		Charges for Services	Operating Grants, Contributions, and Restricted Interest
Governmental Activities			
Public safety	\$ 1,209,217	\$ 167,328	\$ 34,345
Public works	388,778	175,669	324,201
Health and social services	2,569	725	
Culture and recreation	363,820	121,681	16,664
Community and economic development	329,877	8,376	
General government	553,114	4,212	
Capital projects	1,863,968		
Total governmental activities	4,711,343	477,991	375,210
Business type activities			
Water	397,507	477,556	
Sewer	435,095	419,738	
Total business type activities	832,602	897,294	
Total	\$ 5,543,945	\$ 1,375,285	\$ 375,210

General Receipts

Property tax levied for
General purposes
Tax increment financing
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Loan Repayment
Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash basis net assets

Restricted - Expendable
Urban Renewal purposes
Streets
Capital Projects
Unrestricted
Total cash basis net assets

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis
Net Assets

Governmental Activities	Business Type Activities	Total
\$ (1,007,544)	\$	\$ (1,007,544)
111,092		111,092
(1,844)		(1,844)
(225,475)		(225,475)
(321,501)		(321,501)
(548,902)		(548,902)
(1,863,968)		(1,863,968)
(3,858,142)		(3,858,142)
	80,049	80,049
	(15,357)	(15,357)
	64,692	64,692
\$ (3,858,142)	\$ 64,692	\$ (3,793,450)

\$ 865,408	\$	\$ 815,217
211,612		211,612
2,496,426		2,496,426
14,742	9,329	24,071
80,546		80,546
450,000	(450,000)	
4,118,734	(440,671)	3,627,872
260,592	(375,979)	(115,387)
2,076,934	1,015,581	3,092,515
\$ 2,337,526	\$ 639,602	\$ 2,977,128

\$ 598,242	\$	\$ 598,242
159,513		159,513
121,471	450,793	572,264
1,458,300	188,809	1,647,109
\$ 2,337,526	\$ 639,602	\$ 2,977,128

City of Polk City, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2012

	General	Road Use Tax	Capital Projects	Urban Renewal Tax Increment - L.M.I	Total
Receipts					
Property Taxes	\$ 865,408	\$	\$	\$	\$ 865,408
Tax Increment Financing				211,612	211,612
Other City Tax- Local Option Sales Tax	2,496,426				2,496,426
Licenses and Permits	4,212				4,212
Use of Money and Property	108,747			6,327	115,074
Intergovernmental	51,009	324,201			375,210
Charges for Services	373,447				373,447
Miscellaneous	80,546				80,546
Total Receipts	3,979,795	324,201		217,939	4,521,935
Disbursements					
Operating					
Public Safety	1,209,217				1,209,217
Public Works	78,010	310,768			388,778
Health and Social Services	2,569				2,569
Culture and Recreation	363,820				363,820
Community and Economic Development	50,400			279,477	329,877
General Government	553,114				553,114
Capital Projects			1,863,968		1,863,968
Total Disbursements	2,257,130	310,768	1,863,968	279,477	4,711,343
Excess (deficiency) of receipts over (under) disbursements	1,722,665	13,433	(1,863,968)	(61,538)	(189,408)
Other financing sources (uses)					
Operating transfers in			2,110,000		2,110,000
Operating transfers out	(1,660,000)				(1,660,000)
Total other financing sources (uses)	(1,660,000)	-	2,110,000		450,000
Net change in cash balances	62,665	13,433	246,032	(61,538)	260,592
Cash balance - beginning of year	1,395,635	146,080	(124,561)	659,780	2,076,934
Cash balance - end of year	\$ 1,458,300	\$ 159,513	\$ 121,471	\$ 598,242	\$ 2,337,526
Cash basis fund balances					
Restricted for:					
Urban renewal purposes	\$	\$	\$	\$ 598,242	\$ 598,242
Streets		159,513			159,513
Capital projects			121,471		121,471
Unassigned	1,458,300				1,458,300
Total cash basis fund balances	\$ 1,458,300	\$ 159,513	\$ 121,471	\$ 598,242	\$ 2,337,526

The accompanying notes to financial statements are an integral part of this statement.

City of Polk City, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2012

	Water	Sewer	Total
Operating receipts			
Charges for service	\$ 477,556	\$ 419,738	\$ 897,294
Total operating receipts	477,556	419,738	897,294
Operating disbursements			
Business type activities	397,507	184,723	582,230
Excess of operating receipts over operating disbursements	80,049	235,015	315,064
Non-operating receipts (disbursements)			
WRA debt and capital improvements		(250,372)	(250,372)
Interest on investments	1,876	7,453	9,329
Operating transfers out		(450,000)	(450,000)
Total other financing sources (uses)	1,876	(692,919)	(691,043)
Net change in cash balances	81,925	(457,904)	(375,979)
Cash balances - beginning of year	106,884	908,697	1,015,581
Cash balances - end of year	\$ 188,809	\$ 450,793	\$ 639,602
Cash basis fund balances - Unreserved			
Restricted for WRA Capital Project	\$	\$ 450,793	\$ 450,793
Unrestricted	188,809		188,809
Total cash basis fund balances	\$ 188,809	\$ 450,793	\$ 639,602

See notes to financial statements.

City of Polk City, Iowa
Notes to Financial Statements
June 30, 2012

1/ Summary of Significant Accounting Policies

The City of Polk City is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services.

A. Reporting Entity

For financial reporting purposes, the City of Polk City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

In 1998, the City joined the Des Moines Area Metropolitan Planning Organization to plan and coordinate the transportation activities for the metropolitan area. The Organization's Board consists of a representative from each governing body. The members make contributions toward the budget of the organization. During the year ended June 30, 2012, the City paid \$3,862 to the Organization.

In 1969, the City, in conjunction with seventeen other cities, created the Metro Waste Authority. The Authority board consists of an elected representative of the governing body of each participating governmental jurisdiction. The purpose of this joint public body is to provide for the economic disposal of all solid waste produced or generated by the jurisdictions and private contractors. During the year ended June 30, 2012, the City paid the Metro Waste Authority \$35,969 for the Curb It Program.

In October 2009, the City entered into an agreement with the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) to become a voting member community and paid \$616,227 to join 16 other communities in that joint venture under the provisions of Chapter 28 of the Code of Iowa. The purpose of the WRA is to plan, construct, operate and manage regional sanitary sewer facilities. During the year ended June 30, 2012, the City paid the WRA \$101,052 for the City's share of the operating costs and \$149,320 for debt and existing capital improvements.

The City, in conjunction with eighteen other cities, created the Polk County Emergency Management Commission using a 28E agreement. The commission provides direction for planning, coordinating, training, and support of emergency management services. During the year ended June 30, 2012, the City paid \$855 to the commission.

In addition, the City participates in other jointly governed organizations that provide services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Joint County/Municipal Disaster Services and Emergency Planning Administration for Polk County, the Emergency Communications Services (911) Board and Central Iowa Regional Drinking Water Commission and League of Cities.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories:

Expendable restricted net assets result when constraints placed on a net asset are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Separate Fund Financial Statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The Road Use Tax Fund is utilized to account for road construction and maintenance.

The Urban Renewal Tax Increment- LMI Fund is utilized to account for all tax increment financing resources used in the low to moderate income family housing program.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation, maintenance and capital projects of the City's water system.

The Sewer Fund accounts for the operation, maintenance and capital projects of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Polk City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less restrictive classifications- committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable- Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted- Amounts restricted to specific purposes when constraints places on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned- Amounts the Council intends to use for specific purposes.

Unassigned- All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2/ Cash and Pooled Investments

The City's deposits, at June 30, 2012, were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$24,289 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

3/ Tax Increment Financing

The Urban Renewal Tax Increment – LMI fund contains the division of tax receipts as provided for in Chapter 403.19 of the Code of Iowa for the purpose of providing or aiding public improvements and residential development. That Chapter and Chapter 403.22 provides that the City must include assistance to low and moderate income family housing. In February 2008, the City adopted an affordable housing plan to be implemented through 2015.

4/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010, were \$82,263, \$73,353, and \$66,337, respectively, which are equal to the required contributions for each year.

5/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences for vacation hours payable to employees at June 30, 2012, primarily relating to the General Fund, is \$46,000.

The liability has been computed based on rates of pay in effect at June 30, 2012.

6/ Risk Management

- a) The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current

year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Polk City's annual contributions to the Pool for the year ended June 30, 2012 were \$53,386.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the members' risk-sharing certificate or in the event a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions; however, the refund is reduced by an amount equal to the annual casualty operating contribution, which the withdrawing member would have made for the one-year period following withdrawal.

- b) The City is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdictions. The City has executed a Worker's Compensation coverage agreement with the Association which extends through June 30, 2012 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2012, the City paid worker's compensation insurance premiums of \$48,570 to the Association.

7/ Commitments

The City entered into contracts for various public improvements. At June 30, 2012, the remaining commitments on these contracts approximated \$381,000.

In addition, as part of the project to expand the trunk sewer lines to Polk City and connect to the WRA facilities, the City has agreed with Polk County and the City of Ankeny to participate in a joint venture under Chapter 28E and to make annual payments to Polk County for Polk City's share of the project costs. As of the date of this report, the total project has not been completed but the City's total capital project costs, including interest on the debt used by the joint venture to finance the costs, are estimated to be \$18,000,000. After payments of

approximately \$1,600,000 for right of way acquisitions through June 30, 2012, the City is committed to pay an estimated \$560,000, annually, until 2042.

8/ Development Agreements

In a prior year, the City entered into an agreement which requires the developer to provide street and utility improvements in an urban renewal area. The site will have a taxable valuation of not less than \$1,200,000. The agreement requires the City to rebate the incremental increase in property taxes collected from the project over a twenty year period but not to exceed \$ 500,000. Since the incremental increase in property values will not be on the tax rolls until 2013 , no tax increment taxes were rebated.

In November , 2011, The City and a residential developer entered into an agreement which required the developer to make certain public improvements. If the improvements are not completed the City may elect to contract for the construction of the improvements and will assess the costs of the improvements to the developer and the properties.

9/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosure of liabilities, contingent liabilities, and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

10/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

	<u>Transfer To</u>
	<u>Capital Projects</u>
Transfer from	
General	\$ 1,660,000
Sewer	450,000
	<u>\$ 2,110,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

11/ Water Rates

In 2006, the City paid Des Moines Water Works \$665,000 for the right to pay lower water rates over forty years, based on a 350,000 gallon per day consumption. The rates will be based on annual cost studies conducted by the Des Moines Water Works. Initially such rates are \$.90 per 1,000 gallons.

12/ Interfund Loan

During the year ended June 30, 2006, the General Fund loaned \$665,000 with no interest to the Water Fund. At June 30, 2012, the loan balance totaled \$65,000.

13/ Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 18 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employee, in that same age category.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The premiums under the plan are age based on the employee or retiree's age. For the year ended June 30, 2012, the City contributed \$129,406 and plan members eligible for benefits contributed \$ 11,512 to the plan.

City of Polk City, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2012

	Governmental Funds Actual	Enterprise Funds Actual	Net
Receipts			
Property Taxes	\$ 865,408		\$ 865,408
Tax increment financing	211,612		211,612
Other city tax	2,496,426		2,496,426
Licenses and permits	4,212		4,212
Use of money and property	115,074	9,329	124,403
Intergovernmental	375,210		375,210
Charges for service	373,447	892,184	1,265,631
Special assessments		5,110	5,110
Miscellaneous	80,546		80,546
Total Receipts	4,521,935	906,623	5,428,558
Disbursements			
Public safety	1,209,217		1,209,217
Public works	388,778		388,778
Health and social services	2,569		2,569
Culture and recreation	363,820		363,820
Community and economic development	329,877		329,877
General government	553,114		553,114
Capital projects	1,863,968		1,863,968
Business type activities		832,602	832,602
Total Disbursements	4,711,343	832,602	5,543,945
Excess (deficit) of receipts over disbursements	(189,408)	74,021	(115,387)
Other financing sources, net	450,000	(450,000)	-
Excess (deficit) of receipts and other sources over disbursements	260,592	(375,979)	(115,387)
Balance - beginning of year	2,076,934	1,015,581	3,092,515
Balance - end of year	\$ 2,337,526	\$ 639,602	\$ 2,977,128

See accompanying independent auditors' report.

Budgeted Amounts		
Original	Final	Final to Net Variance
\$ 842,860	\$ 842,860	\$ 22,548
200,000		211,612
1,820,244	2,362,075	134,351
60,600	60,950	(56,738)
147,000	129,050	(4,647)
316,300	316,160	59,050
981,700	952,000	313,631
1,000	1,100	4,010
21,750	224,850	(144,304)
4,391,454	4,889,045	539,513
1,238,195	1,216,040	6,823
431,960	441,905	53,127
5,000	5,000	2,431
392,000	418,800	54,980
600,000	640,000	310,123
604,920	568,501	15,387
2,250,000	2,250,000	386,032
1,000,590	1,001,250	168,648
6,522,665	6,541,496	997,551
(2,131,211)	(1,652,451)	1,537,064
500		
(2,130,711)	(1,652,451)	1,537,064
2,485,397	3,092,515	
\$ 354,686	\$ 1,440,064	\$ 1,537,064

City of Polk City, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Permanent Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$12,611. The budget amendments are reflected in the final budgeted amounts.

City of Polk City, Iowa
Schedule of Receipts by Source and Disbursements by Function
All Government Funds
For the Last Eight Years

	2012	2011	2010	2009	2008	2007	2006	2005
Receipts								
Property taxes	\$ 865,468	\$ 815,217	\$ 754,431	\$ 716,363	\$ 672,673	\$ 660,567	\$ 652,778	\$ 541,190
Tax increment financing collections	211,612	201,167	187,303	165,570	139,326	89,476	38,898	1,019
Other city tax	2,496,426	1,852,242	2,407,497	1,839,576	1,837,249	1,618,377	886,977	1,161,315
Licenses and permits	4,212	71,554	81,001	64,846	120,258	145,951	336,109	84,345
Use of money and property	115,074	126,698	123,873	116,930	194,813	109,141	163,269	142,737
Intergovernmental	375,210	347,900	310,792	294,806	355,754	1,095,037	301,478	332,843
Special Assessments			46,319			1,674,518		
Charges for service	373,447	195,459	150,842	156,631	105,246	92,250	97,588	148,896
Miscellaneous	80,546	46,040	43,668	71,491	81,185	52,628	78,644	377,689
Total	\$ 4,521,935	\$ 3,656,277	\$ 4,105,726	\$ 3,426,213	\$ 3,506,504	\$ 5,537,945	\$ 2,555,741	\$ 2,790,034
Disbursements								
Operating								
Public safety	\$ 1,209,217	\$ 831,653	\$ 822,826	\$ 825,688	\$ 1,197,167	\$ 769,747	\$ 641,447	\$ 695,097
Public works	388,778	486,582	437,051	611,167	311,412	410,598	542,564	376,903
Health and human services	2,569		4,681		7,500		12,081	6,519
Culture and recreation	363,820	423,770	394,666	340,042	352,076	389,241	276,196	296,841
Community and economic development	329,877	146,792	83,972	154,600	22,500	10,000	41,466	15,436
General government	553,114	621,780	612,431	572,733	444,456	439,144	792,342	342,946
Debt service								375,000
Capital projects	1,863,968	1,758,427	1,756,896	857,113	1,184,008	2,224,242	1,364,368	2,306,711
Total	\$ 4,711,343	\$ 4,269,004	\$ 4,112,523	\$ 3,361,343	\$ 3,519,119	\$ 4,242,972	\$ 3,670,464	\$ 4,415,453

See accompanying independent auditors' report.

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JAMES R. ZIRCHER, CPA
NEAL R. SMITH, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1108
JOHNSTON, IOWA 50131-6499
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Polk City, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon as dated below. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Polk City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, we identified a deficiency in internal control over financial reporting, described in Part I of the accompanying Schedule of Findings that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Polk City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Polk City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Polk City and other parties to whom the City of Polk City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

October 18, 2012

Rolland and Company P.C.

City of Polk City, Iowa
Schedule of Findings
Year Ended June 30, 2012

PART I Findings Related to the Financial Statements

Reportable Conditions

12-I-A Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally the finance officer has control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, journalizing and posting.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

We will continue to review the internal control procedures and segregate duties to the extent possible with existing personnel.

Conclusion

Response acknowledged. The City should segregate duties to the extent possible. Administrative personnel should provide additional control through review of financial transactions and reports.

PART II Other Findings Related to Statutory Reporting

12-II-A Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

12-II-B Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

12-II-C Business Transactions

There were no business transactions between the City and City officials or employees during the year.

12-II-D

Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

12-II-E

Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

12-II-F

Deposits and Investments

Deposits and investments were in compliance with Chapter 12B and 12C of the Code of Iowa and the City's investment policy.